

# HOUSE BILL REPORT

## HB 2428

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**As Reported by House Committee On:**  
Technology, Energy & Communications

**Title:** An act relating to cost-reimbursement agreements under chapter 78.52 RCW.

**Brief Description:** Authorizing oil and gas regulatory cost-reimbursements.

**Sponsors:** Representatives Kretz, Sump and Morris; by request of Department of Natural Resources.

**Brief History:**

**Committee Activity:**

Technology, Energy & Communications: 1/20/06, 2/2/06 [DP].

**Brief Summary of Bill**

- Allows the Department of Natural Resources to enter into cost-reimbursement agreements with oil and gas operators to recover costs incurred in carrying out compliance-related requirements.

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### HOUSE COMMITTEE ON TECHNOLOGY, ENERGY & COMMUNICATIONS

**Majority Report:** Do pass. Signed by 12 members: Representatives Morris, Chair; Kilmer, Vice Chair; Crouse, Ranking Minority Member; Haler, Assistant Ranking Minority Member; Ericks, Hankins, Hudgins, Nixon, P. Sullivan, Sump, Takko and Wallace.

**Staff:** Scott Richards (786-7156).

**Background:**

Recent high prices and increased demand for oil and natural gas have renewed interest in exploration in Washington. Parts of the state such as the Columbia Basin show promise for significant reserves of natural gas. Also, recent auctions of oil and gas exploration rights on state trust lands suggests that drilling activities may increase.

The Department of Natural Resources (Department) regulates oil and gas exploration in Washington. The Department imposes conditions and restrictions as necessary to protect the public interest and to ensure compliance with state law, rules and orders. The Department issues permits to drill wells and ensures compliance with applicable laws, rules and orders. The Department may be reimbursed for costs for pre-permitting activities through drilling permit fees.

Drilling permit fees are paid by any person proposing to drill any well in search of oil or gas. They must apply to the Department for a permit and pay a fee for each application. For each of the following well depths an associated fee is required: (a) from 3,500 feet or less - \$200; (b) from 3,501 feet to 7,500 feet - \$500; (c) from 7,501 feet to 12,000 feet - \$750; and (d) from 12,001 feet and deeper - \$1,000.

Departmental cost-reimbursement related to compliance and post-discovery activities is not covered by statute. Post-discovery regulatory activities may include, but are not limited to, engineering analysis for reservoir size; locating and spacing of wells and operations; and reclamation and clean up of all well sites.

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### **Summary of Bill:**

The Department may enter into a written cost-reimbursement agreement with an applicant, permit holder, or project operator to recover the reasonable costs incurred by the Department in carrying out oil and gas conservation compliance-related requirements such as permit coordination, environmental review, application review, technical studies in support of permit processing, or orders issued by the oil and gas supervisor and permit compliance.

Cost-reimbursement agreements are considered an interim measure until oil and gas development activities necessitate additional Department staffing resources. Cost-reimbursement agreements must be initiated at the request of an applicant for the purpose of assisting the Department in expediting and facilitating the permitting and compliance processes. The cost-reimbursement agreement must identify the specific tasks, costs, and schedule for work to be conducted under the agreement.

#### *Third Party Contracting*

The written cost-reimbursement agreement must be negotiated with the applicant, permit holder, or project operator. Under the provisions of a cost-reimbursement agreement, funds from the applicant, permit holder, or project operator must be used by the Department to contract with a third party to carry out the work covered by the cost-reimbursement agreement.

The Department shall, in developing and implementing the cost-reimbursement agreement, ensure that the Department reviews and oversees the work performed by the third party, including the actual issuance of permits, reviewing reports and taking final action related to permit compliance.

These actions are considered to be the work of the Department, which are included in application fees, and not paid for by the agreement. Final decisions that involve policy matters must be made by the Department and not by the consultant. The billing process must provide for accurate time and cost accounting and may include a billing cycle that provides for progress payments. The restrictions of chapter 42.52 RCW apply to any cost-reimbursement agreement, and to any person hired as a result of a cost-reimbursement agreement.

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**Appropriation:** None.

**Fiscal Note:** Available

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.

**Testimony For:** This bill allows the Department to enter into cost-reimbursement agreements with oil and gas operators who drill or perform exploration in order to recover the cost to the state. Current law does not address downstream activity, but this bill does. We haven't had any new discoveries since 1941, but there is renewed interest now. We expect to see more activity in this area and that eventually we will have another discovery. Reservoir engineering and geological modeling for drilling wells is an expensive process; cost-reimbursement is a more appropriate way to address the cost rather than through the budgeting process. If we do have a discovery, we will probably need to revisit this issue, but for now, this is a good start.

**Testimony Against:** None.

**Persons Testifying:** Representative Kretz, prime sponsor; and Ron Teissere, Department of Natural Resources.

**Persons Signed In To Testify But Not Testifying:** None.